

---

## Community & Economic Development & Trade Committee

---

### HB 1651

**Brief Description:** Concerning community economic revitalization board programs.

**Sponsors:** Representatives Kelley, Ericks, Sullivan, Ormsby, Carlyle and Simpson.

#### Brief Summary of Bill

- Increases the statewide contribution for Local Infrastructure Financing Tool (LIFT) competitive projects by \$5 million per year for a statewide total of \$12.5 million per year.
- Authorizes the LIFT competitive application processes for calendar years 2009 and 2010.
- Removes the general restriction on Community Economic Revitalization Board (CERB) approving the use of the LIFT in more than one revenue development area per county.
- Extends the LIFT program by five years to June 30, 2044.
- Adds an urban planner and representative of organized labor to the CERB.

**Hearing Date:** 2/12/09

**Staff:** Meg Van Schoorl (786-7105)

#### **Background:**

##### Traditional Tax Increment Financing.

Traditional "tax increment financing" is a method of allocating a portion of property taxes to finance economic development in urban areas. Typically, under tax increment financing, a local government issues bonds to finance public improvements. To repay its bondholders, the local government is permitted to draw upon regular property tax revenue collected from property

---

*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

owners inside a special district surrounding the site of the public improvements. Construction of public improvements tends to increase the market values of nearby properties. Increases in value can result in increased property taxes for each taxing district that includes property near the public improvement. Under tax increment financing, the local government making the improvement gets all of the resulting tax revenue increase. For example, if a city makes an improvement that raises nearby property values, the city gets all of the resulting increase in property taxes, rather than sharing that increase with the state, county, and other local districts under the normal property tax allocation system.

### 1982 Tax Increment Financing Act.

Washington's original tax increment financing legislation was adopted by the Legislature in 1982. The 1982 Act followed the general contours of traditional tax increment financing, as described above. At the same time the original tax increment financing legislation was adopted, the Legislature also adopted Senate Joint Resolution (SJR) 143, a proposed constitutional amendment that expressly authorized the financing methods described in the 1982 Act. The voters rejected SJR 143 in the November 1982 state general election. However, the legislation authorizing tax increment financing was not contingent on the proposed constitutional amendment, and remained on the books. In 1985 the Legislature passed House Joint Resolution 23, another proposed constitutional amendment authorizing tax increment financing, and placed it on the ballot. It was also defeated at the polls.

Legislative history for the 1982 Act shows that the Legislature thought tax increment financing might violate the uniformity requirement for property taxes under Article VII, section 1 of the state Constitution. The City of Spokane attempted to use the 1982 Act to finance redevelopment of the area surrounding Bernard Street in downtown Spokane. A lawsuit challenging the use of tax increment financing to fund these improvements was filed by a property owner in the apportionment district. In 1995 the Washington Supreme Court invalidated Spokane's use of the 1982 Act, ruling that the Act violated article 9, section 2, of the state Constitution, in that it allowed diversion of property tax revenues away from the common schools. That section of the constitution requires that the state tax for common schools be applied exclusively to the support of the common schools. By ruling under the school funding clause of the Constitution, the Supreme Court did not reach other property tax uniformity issues. Therefore, the constitutionality of tax increment financing under the uniformity clause is still an open question.

### The Local Infrastructure Financing Tool.

Since 2001 the Legislature has authorized three additional types of tax increment financing: the Community Revitalization Financing Act, the Local Infrastructure Financing Tool (LIFT), and the Hospital Benefit Zone Program.

*The 2006 (LIFT) Program.* Instead of allocating a portion of the state property tax, under the LIFT program, state sales taxes collected within a sponsoring jurisdiction are diverted to the jurisdiction for the purpose of funding public improvements within the designated increment area, known as the "revenue development area." A sponsoring jurisdiction can be a city, town, county, or federally recognized Indian tribe. The maximum state contribution is capped at \$1 million per year per project. Since the LIFT program is essentially a state match program,

jurisdictions must allocate an equivalent amount of local funds to receive the maximum state award. State sales taxes cannot be diverted for more than twenty-five years.

The maximum statewide contribution for all of the LIFT projects is capped at \$7.5 million per year (\$2.5 million for demonstration projects, \$5 million for competitive projects.) Nine projects have been awarded under the LIFT program. Three of them are demonstration projects designated by the Legislature: Bellingham, Vancouver, and Spokane County. Six of them were approved through two competitive application processes administered by the CERB: in 2007 Bothell, Everett, and Federal Way; in 2008 Yakima, Mt. Vernon, and Puyallup.

The CERB may not approve use of the LIFT within more than one revenue development area per county, with two exceptions: cities located in more than one county, and counties that include demonstration projects.

The window for the application process is currently closed. Approval of additional projects requires future legislative action.

The expiration date for the LIFT program is June 30, 2039.

**Summary of Bill:**

The statewide contribution for the LIFT competitive projects is increased by \$5 million per year. This raises the maximum statewide contribution for all the LIFT projects from \$7.5 million per year to \$12.5 million per year.

The general restriction on the CERB approving the use of the LIFT in more than one revenue development area per county is removed.

The LIFT competitive application processes are authorized for calendar years 2009 and 2010. For projects not receiving awards in 2008, sponsoring and cosponsoring local governments may apply again in 2009. For the calendar year 2009 competitive "round", all applications must be received by the CERB by July 1, and projects approved by September 30. No more than \$2.5 million can be approved.

For projects not receiving awards in 2009, sponsoring and cosponsoring local governments may apply again in 2010. For the calendar year 2010 competitive "round", all applications must be received by the CERB by June 1, and projects approved by September 30.

The expiration date for the LIFT program is extended by five years to June 30, 2044.

The CERB membership is expanded to include one member representing organized labor and one urban planner, each appointed by the Governor.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed, except for section 3, relating to the 2009 LIFT round and per county project limit, which takes effect immediately.